

# TEACHERS' RETIREMENT BOARD

## INVESTMENT COMMITTEE

SUBJECT: Report of the Chief Investment Officer

ITEM NUMBER: 10

ATTACHMENTS: 5

ACTION: \_\_\_\_\_

DATE OF MEETING: November 6, 2002

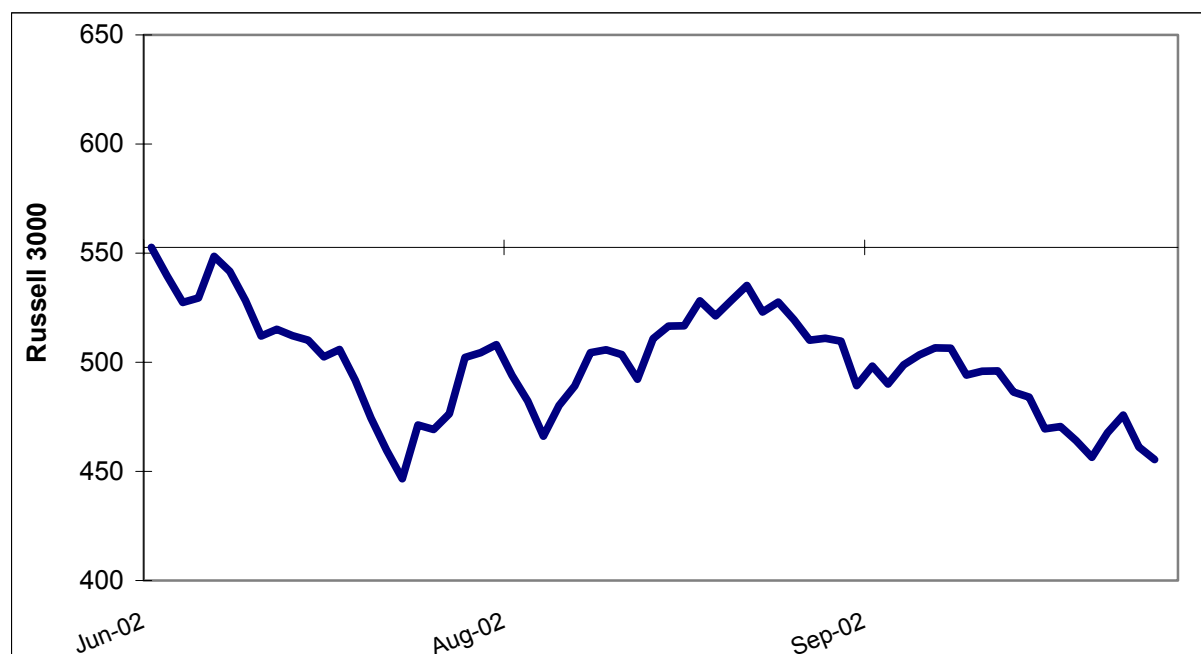
INFORMATION: X

PRESENTER: Christopher J. Ailman

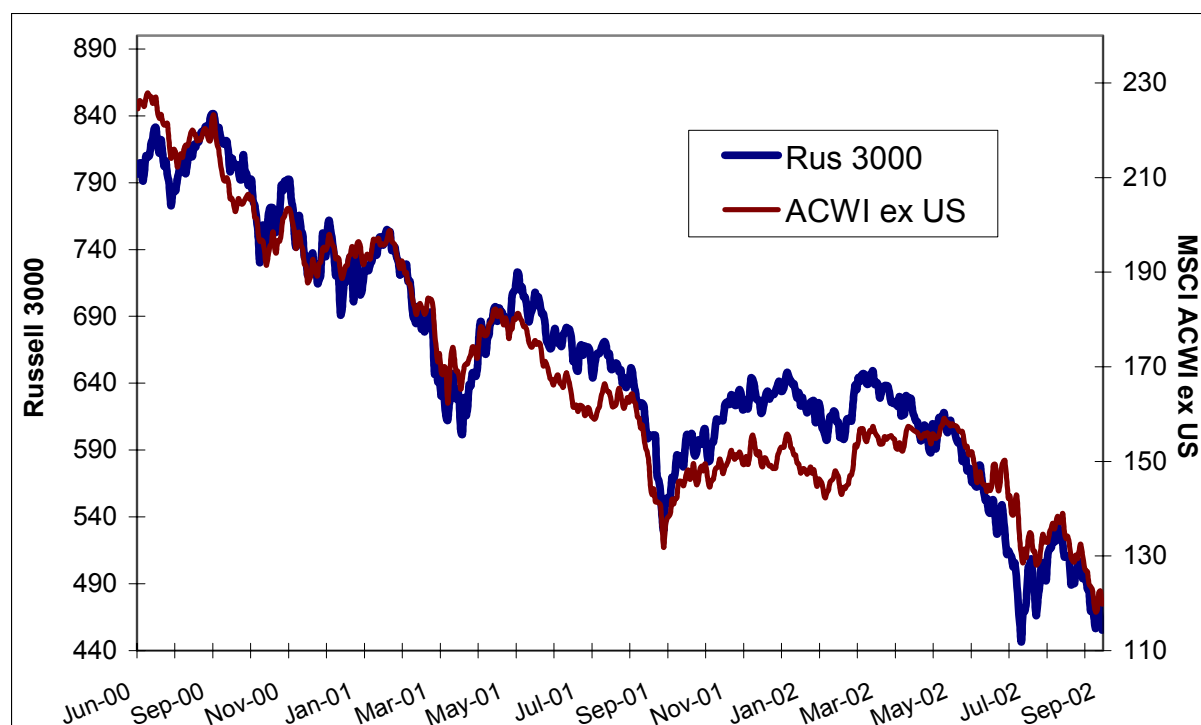
Attached are the monthly reports for the period ending September 30, 2002. Listed below is a brief summary of the developments that have occurred in the financial markets since the start of the fiscal year to the most recent month end. They serve as a backdrop for the results listed in the report. The second page provides a daily graph of the U.S and Non-U.S. equity markets. The CIO will provide a further verbal update at the meeting.

	June 30, 2002	Sept. 30, 2002	Direction
Interest rates:			
Federal Funds	2.00%	1.94%	↕ Trading range
10-year U.S. Treasury Note yield	4.80%	3.60%	↓ Down 120 BP
30-year U.S. Treasury Bond yield	5.50%	4.67%	↓ Down 83 BP
U.S. Equity market:			
Russell 3000 Index	552.65	455.41	↓ Down 97.24
S&P 500 Index	989.82	815.28	↓ Down 174.54
NASDAQ Index	1463.21	1172.06	↓ Down 291.15
Non-U.S. Equity market:			
MSCI ACWI free (ex. U.S.)	149.24	119.78	↓ Down 29.46
MSCI EAFE	1123.00	898.32	↓ Down 224.68
MSCI Emerging Markets	319.75	266.11	↓ Down 53.64
Currencies:			
Euro in U.S.\$	.99	.99	↕ Trading range
Yen per U.S. \$	119.59	121.74	↑ Stronger U.S. \$
British Pound in U.S.\$	1.48	1.57	↓ Weaker U.S. \$
Commodities:			
Crude Oil per barrel	\$26.86	\$30.45	↑ Up \$3.59
Gold	\$318.50	\$323.70	↑ Up \$5.20
Mega Watt Hour (CA-OR on-peak)	\$23.38	\$29.50	↑ Up \$6.12

The chart below displays the daily price movement of the U.S. equity market, as measured by the Russell 3000 index, for the current Fiscal-Year 2002-2003.



This chart provides a comparison of the daily U.S. and Non-U.S. equity market price change since June 30, 2000.





## CalSTRS INVESTMENT COMMITTEE

### Chief Investment Officer Report

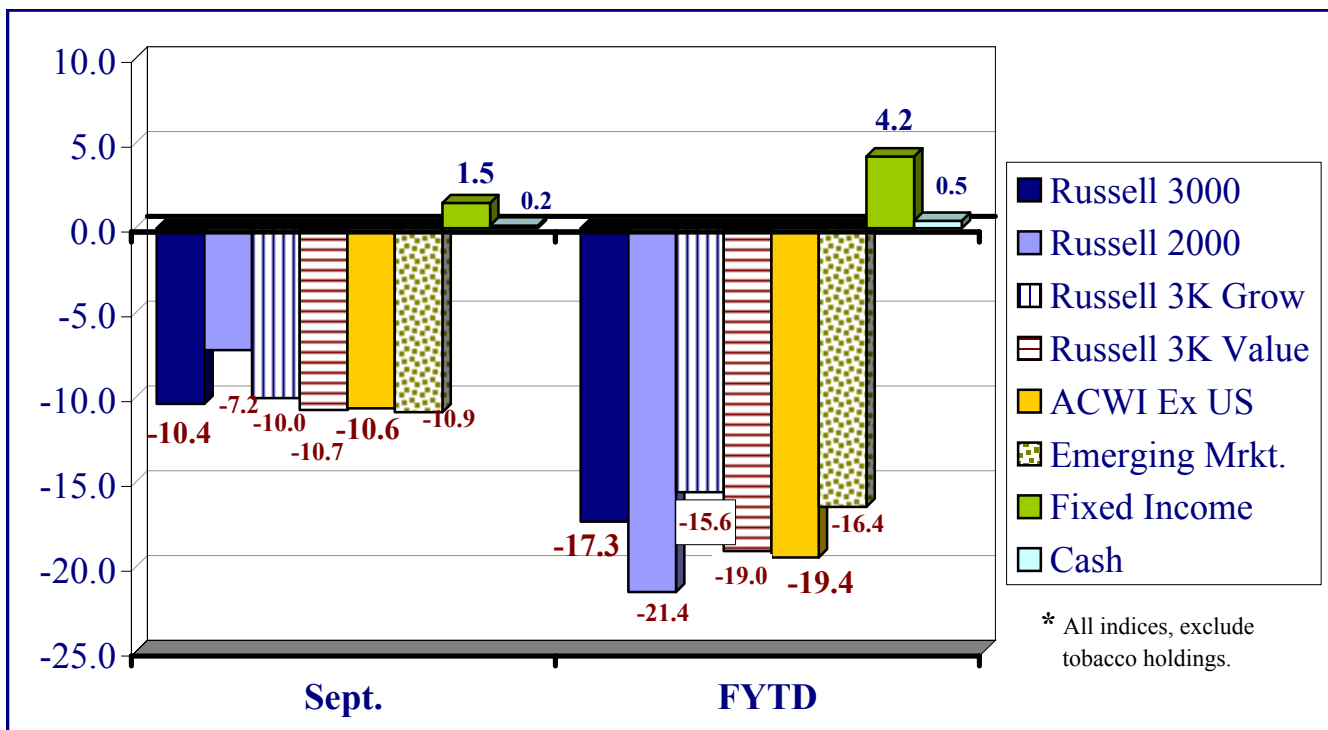
## Capital Market Environment

### September 30, 2002

### Russell 3000 January 1, 1999 - October 11, 2002 (Weekly Price)



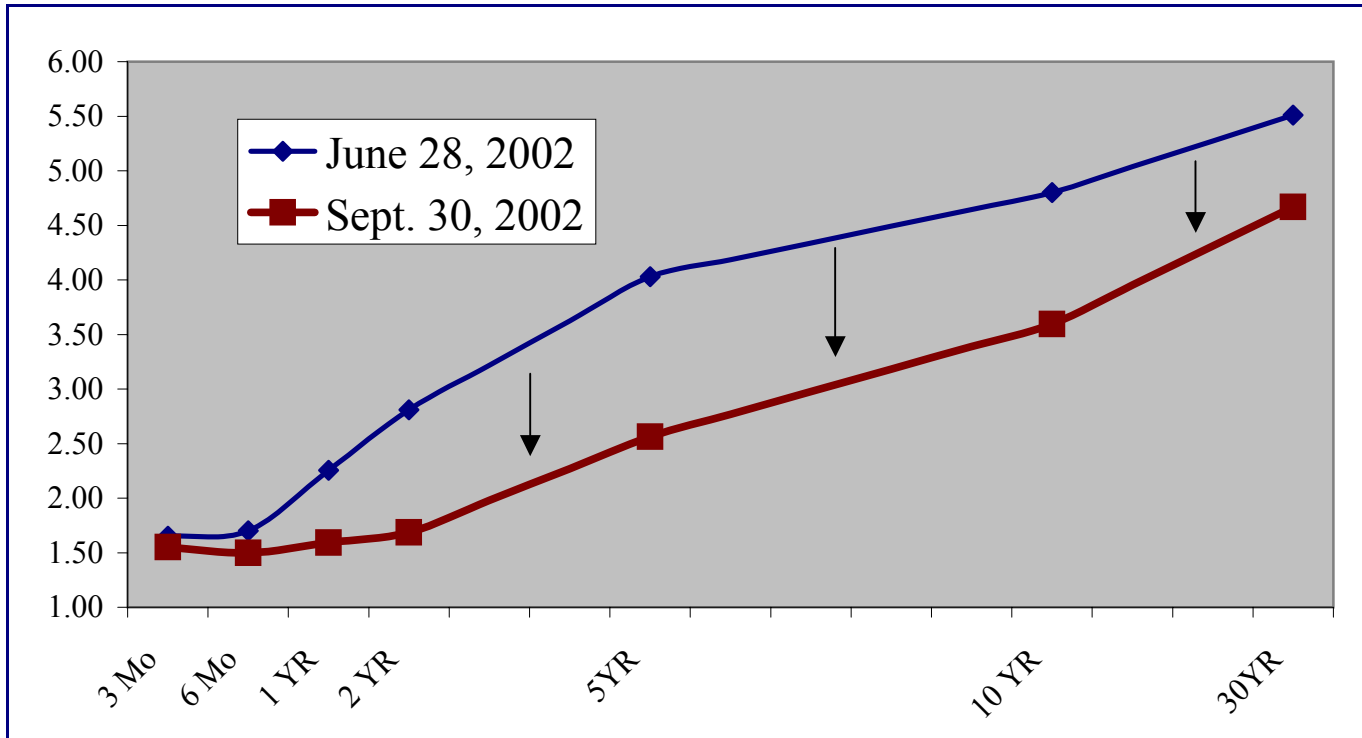
### Capital Market Returns - Month of September and Fiscal Year to date



## Capital Markets Data

### U.S. Treasury Yield Curve

Fiscal Year 2002 - 2003

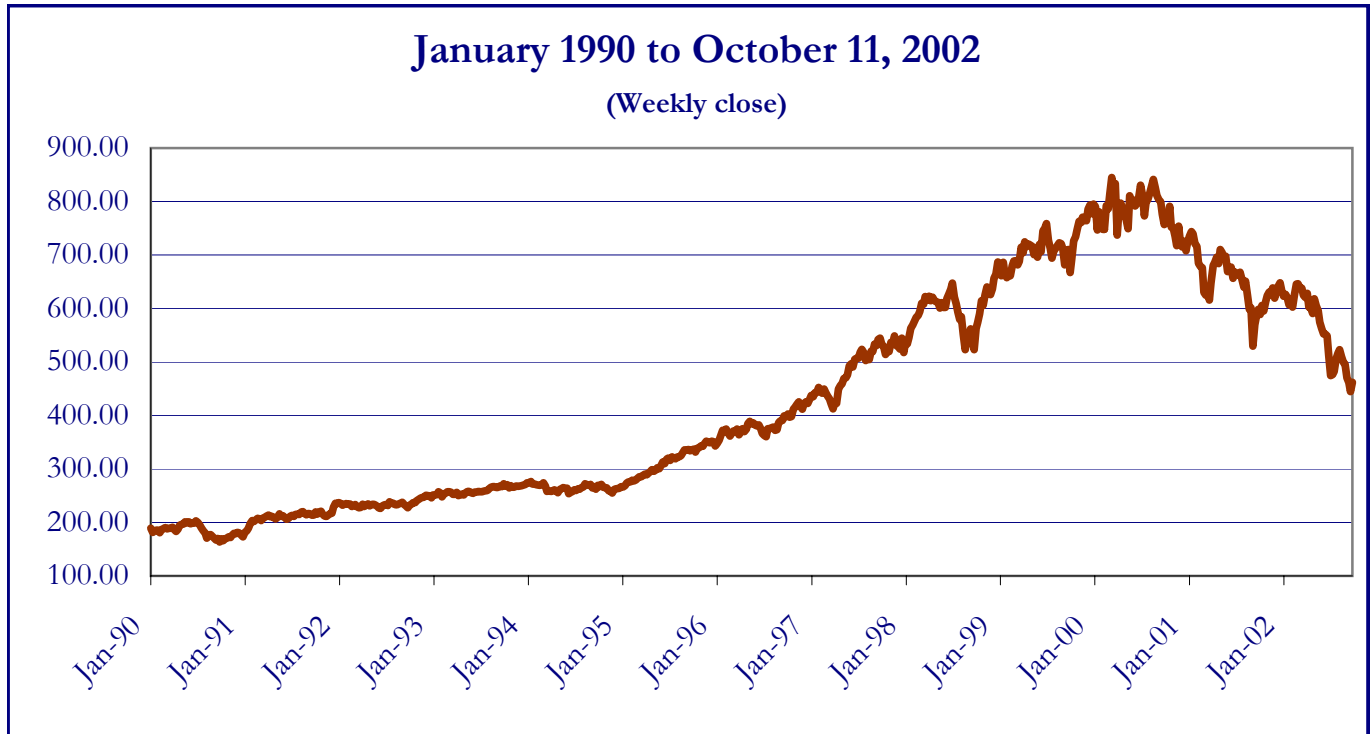


### Russell 3000 Weekly close from January 1995 to October 11, 2002

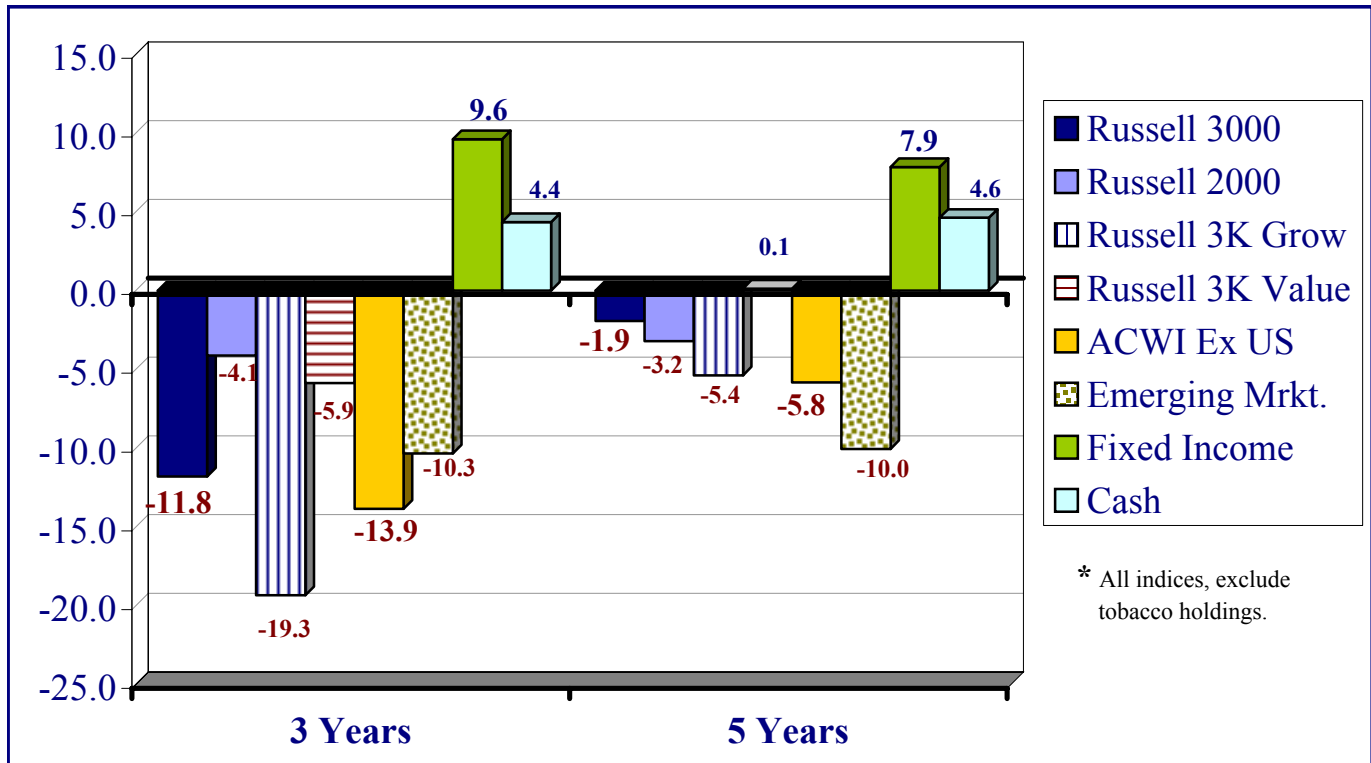


# Review of Long-Term Capital Markets Data

## Russell 3000 since the 1990's



## Capital Market Returns - For the 3 & 5 years ending September 30, 2002





## CalSTRS Retirement Fund

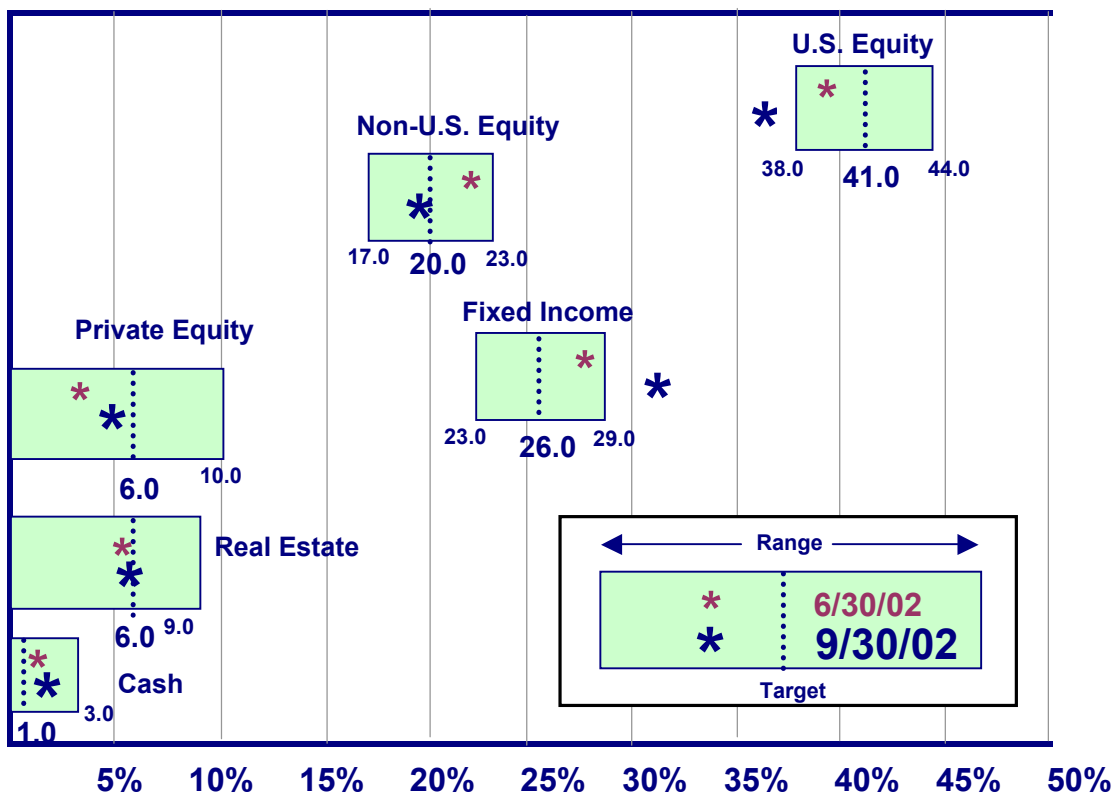
### Monthly Asset Allocation Report

As of September 30, 2002

	FY '02-'03 TARGETS	ACTUAL September-02	Off Target (000s)
U.S. Equity	41%	36.4%	\$ (4,025,767)
Non-U.S. Eq.	20%	19.6%	\$ (335,562)
Fixed Income	26%	31.4%	\$ 4,782,768
Private Equity	6%	4.9%	\$ (956,663)
Real Estate	6%	5.8%	\$ (137,141)
Cash	1%	1.8%	\$ 672,366

## Current Allocation

versus Long Term Targets and Policy Ranges



<b>Investment Summary - Market Value</b> (amounts in millions)									
Asset	This Month		One Year Ago		Three Years Ago		Five Years Ago		
US Equity	\$	32,081	36.4%	\$	33,914	35.6%	\$	42,141	43.1%
Non-US Equity		17,278	19.6%		19,650	20.6%		24,655	25.2%
US Debt		27,680	31.4%		29,359	30.8%		24,876	25.4%
Global Asset Allocators	N/A	N/A		N/A	N/A		-	0.0%	2,367
Real Estate		5,148	5.8%		5,084	5.3%		2,107	2.2%
Private Equity		4,327	4.9%		4,675	4.9%		3,130	3.2%
Liquidity		1,554	1.8%		2,567	2.7%		886	0.9%
<b>Total Market Value</b>	<b>\$</b>	<b>88,068</b>	<b>100.0%</b>	<b>\$</b>	<b>95,249</b>	<b>100.0%</b>	<b>\$</b>	<b>97,795</b>	<b>100.0%</b>

<b>Performance Returns for Major Asset Categories</b>						
Asset	Month	Fiscal YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.
US Equity	-10.22	-16.83	-17.71	-11.38	-1.91	8.49
Non-US Equity	-10.11	-18.69	-12.77	-12.59	-4.62	3.86
US Debt	2.10	5.92	8.81	9.97	8.26	8.19
Real Estate	N/A	N/A	6.86	10.29	14.22	7.85
Private Equity	N/A	N/A	-12.03	6.13	14.78	18.63
Liquidity	0.24	0.76	3.39	5.46	5.69	5.47
<b>Total Fund</b>	<b>-5.43</b>	<b>-9.10</b>	<b>-7.69</b>	<b>-3.81</b>	<b>2.00</b>	<b>7.08</b>
<b>Indicies</b>						
US Equity History *	-10.36	-17.30	-20.16	-12.03	-2.09	8.72
Non-US Equity History *	-10.61	-19.40	-13.23	-13.85	-5.82	3.07
US Debt History	2.06	6.16	9.63	10.30	8.25	8.17
Real Estate History	N/A	N/A	5.72	9.22	11.16	8.34
T-Bill	0.14	0.43	1.97	4.20	4.48	4.54
Consumer Price Index	0.17	0.61	1.53	2.54	2.35	2.51

<b>Allocations of Cash and Reallocations of Assets</b> (does not include changes in the market value)		
	Current Month	Past 12 Months
<b>Cash Inflow:</b>		
Contributions & misc receipts	\$ 213.6	\$ 4,837.8
Less: Benefits & misc. payments	\$ (51.8)	\$ (4,779.5)
Investment Income	\$ 289.4	\$ 3,934.9
<b>Total Cash Inflow</b>	<b>\$ 451.2</b>	<b>\$ 3,993.2</b>
<b>Cash Allocation:</b>		
US Equity	\$ 732.7	\$ 5,938.5
Non-US Equity	\$ 36.2	\$ 594.0
US Debt	\$ (381.2)	\$ (2,340.8)
Real Estate	\$ 48.2	\$ 381.7
Private Equity	\$ 49.0	\$ 428.7
Liquidity	\$ (33.7)	\$ (1,008.9)
<b>Total Cash Allocation</b>	<b>\$ 451.2</b>	<b>\$ 3,993.2</b>

\* Indicies reflect ex Tobacco returns beginning 9/1/2000

<b>Asset Allocation Percentage</b>				
<b>Assets</b>	<b>Actual</b>	<b>Target</b>	<b>Difference</b>	<b>Range</b>
Public Equity	56.0%	61.0%	(5.0%)	56 - 68
Public Debt	33.2%	27.0%	6.2%	23 - 32
Real Estate	5.8%	6.0%	(0.2%)	3 - 9
Private Equity	4.9%	6.0%	(1.1%)	3 - 9
<b>Total Investment Assets</b>	<b>100.0%</b>	<b>100.0%</b>		
<b>Which can be compared to the strategic targets .....</b>				
Active - US Equity	8.8%	8.2%	0.6%	5-11
Passive - US Equity	27.7%	32.8%	(5.1%)	30-36
<b>TOTAL US EQUITY</b>	<b>36.4%</b>	<b>41.0%</b>	<b>(4.6%)</b>	<b>38 - 44</b>
Active - Non-US Equity	8.9%	10.0%	(1.1%)	7 - 14
Passive - Non-US Equity	10.7%	10.0%	0.7%	7 - 14
<b>TOTAL NON-US EQUITY</b>	<b>19.6%</b>	<b>20.0%</b>	<b>(0.4%)</b>	<b>18 - 24</b>
<b>US DEBT</b>	<b>31.4%</b>	<b>26.0%</b>	<b>5.4%</b>	<b>23 - 29</b>
<b>LIQUIDITY</b>	<b>1.8%</b>	<b>1.0%</b>	<b>0.8%</b>	<b>0 - 3</b>
<b>REAL ESTATE</b>	<b>5.8%</b>	<b>6.0%</b>	<b>(0.2%)</b>	<b>3 - 9</b>
<b>PRIVATE EQUITY</b>	<b>4.9%</b>	<b>6.0%</b>	<b>(1.1%)</b>	<b>3 - 9</b>
<b>TOTAL INVESTMENT ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>		



**Currency Hedging - Market Value (amounts in millions)**

Managers	Pacific Basin		European		Total	
Active International	\$ 2,300.81	1.0%	\$ 4,883.34	0.0%	\$7,184.14	0.3%
Passive International	\$ 2,604.03	20.1%	\$ 5,636.48	0.0%	\$8,240.51	6.4%

\* Does not include emerging market securities, Canadian stocks, cash or accruals.

**Currency Realized Gains/(Losses) (amounts in millions)**

Managers	Currency Realized Gains/(Losses)		
	1 Month	1 Year	Since Inception
Active International	\$0.20	\$2.97	\$97.57
Passive International	(\$10.89)	\$2.04	\$602.29

**Securities Lending Income**

Asset	Current Fiscal Year 07/02-9/02	vs.	Prior Fiscal Year 07/01-09/01
Domestic Equity	\$2,169,005		\$4,323,914
International Equity	\$5,131,863		\$7,280,300
US Treasury	\$6,722,808		\$9,330,501
Other Fixed Income Securities	\$737,089		\$650,619
Total Income	<u>\$14,760,765</u>		<u>\$21,585,334</u>

**Securities Lending (On-Loan/Collateral Summary)**

Asset	Securities On-Loan	Collateral Valuation	Percent
Domestic Equity	\$1,708,849,470	\$1,808,411,298	106%
International Equity	\$3,868,606,617	\$4,080,282,290	105%
US Treasury	\$7,976,129,789	\$8,187,724,507	103%
Other Fixed Income Securities	\$800,580,815	\$819,580,654	102%
Total Value	<u>\$14,354,166,691</u>	<u>\$14,895,998,749</u>	104%

# California State Teachers' Retirement System

Attachment 4

Investment Committee - Item 10

## Monthly Investment Summary

Page 1 of 2

	Market Value			Market Value			Market Value	
	8/31/02	Market %		9/30/02	Market %		Difference	% Diff.
<b>Liquidity</b>								
CalSTRS - Cash Allocation	1,489,035,814			1,457,242,299			(31,793,515)	
CalSTRS - US Cash Equitization	107,083,357			95,804,946			(11,278,410)	
<b>Total Liquidity</b>	1,596,119,171	1.72%		1,553,047,245	1.76%		(43,071,925)	0.05%
<b>US Equity</b>								
<b>Active</b>								
Ariel Capital	508,725,168			489,852,830			(18,872,337)	
BGI - Enhanced	630,139,367			659,565,697			29,426,329	
Brown Capital Management	277,732,645			245,698,150			(32,034,495)	
Chicago Equity Partners	519,399,433			471,397,174			(48,002,259)	
Delaware Investment Adv	412,162,739			366,143,927			(46,018,812)	
Delphi Management, Inc	231,350,690			214,967,916			(16,382,774)	
Denver Investment Advisors	519,558,896			490,445,738			(29,113,158)	
DSI International Management	533,190,552			574,326,557			41,136,005	
First Quadrant	623,946,135			567,560,774			(56,385,360)	
Mellon Capital Management	441,528,891			489,245,356			47,716,465	
NCM Capital Management	336,058,550			307,267,607			(28,790,943)	
Putnam Investments	243,992,827			220,077,940			(23,914,887)	
Sasco Capital	750,481,600			691,009,664			(59,471,936)	
SSgA - Enhanced	676,071,358			703,747,038			27,675,680	
TCW Asset Manangement Co	164,421,156			153,387,799			(11,033,357)	
UBS Brinson - USEQ	538,881,191			469,153,039			(69,728,152)	
<b>Passive</b>								
BGI R1000	12,688,899,794			11,349,772,554			(1,339,127,240)	
BGI R2000	897,509,173			833,454,839			(64,054,333)	
CalSTRS R1000	12,694,506,460			11,352,345,065			(1,342,161,394)	
SSgA R2000	899,432,679			835,835,414			(63,597,264)	
<b>Transition</b>								
CalSTRS - Domestic	460,261,002			596,907,480			136,646,478	
<b>Total US Equity</b>	35,048,250,303	37.73%		32,082,162,559	36.43%		(2,966,087,744)	(1.30%)
<b>Non-US Equity</b>								
<b>Active</b>								
Bank of Ireland Asset Management	711,443,329			629,829,831			(81,613,498)	
Battery March Financial Mgmt Inc	544,591,336			492,138,168			(52,453,169)	
Blackrock, Inc.	227,659,060			215,080,716			(12,578,345)	
Capital Guardian Trust	1,005,950,609			898,237,479			(107,713,130)	
Delaware Int'l Advisors Inc.	445,903,157			400,470,421			(45,432,736)	
Fidelity Management Co.	400,625,055			354,756,017			(45,869,039)	
Fiduciary Trust	531,086,825			485,506,214			(45,580,612)	
Goldman Sachs Asset Mgmt	298,594,729			264,547,244			(34,047,485)	
Lazard Freres	740,426,945			669,935,910			(70,491,035)	
Marvin & Palmer Assoc, Inc.	334,587,442			307,362,057			(27,225,385)	
Morgan Stanley	774,117,515			706,366,190			(67,751,325)	
Newport Pacific Mgmt	209,262,674			193,462,305			(15,800,370)	

# California State Teachers' Retirement System

Attachment 4

Investment Committee - Item 10

## Monthly Investment Summary

Page 2 of 2

	Market Value		Market Value		Market Value	
	8/31/02	Market %	9/30/02	Market %	Difference	% Diff.
Nicholas-Applegate Capital Mgmt	357,966,501		323,070,208		(34,896,293)	
Oechsle International	918,552,503		825,690,414		(92,862,090)	
Schroder Capital	465,364,512		435,977,025		(29,387,487)	
UBS Brinson - Non-USEQ	697,508,740		618,438,552		(79,070,188)	
<b>Passive</b>						
BGI - EAFE Index	5,561,717,417		4,988,888,572		(572,828,845)	
SSgA - EAFE Index	3,675,649,143		3,299,759,659		(375,889,484)	
SSgA - Emerging Market Index	1,310,716,702		1,168,507,444		(142,209,257)	
<b>Transition</b>						
CalSTRS International	37,730		38,238		508	
<b>Total Non-US Equity</b>	19,211,761,927	20.68%	17,278,062,663	19.62%	(1,933,699,264)	(1.06%)
<b>US Debt</b>						
CalSTRS - Corporate Bond Index	9,275,105,562		9,030,688,117		(244,417,446)	
CalSTRS - Mortgage Bkd Security	8,424,006,698		8,457,985,964		33,979,266	
CalSTRS - Mortgage Loan	727,380,959		711,679,427		(15,701,531)	
CalSTRS - US Treasury & Agency	8,402,571,446		8,707,053,021		304,481,575	
Hartford Investment Mgmt	276,943,528		269,917,865		(7,025,663)	
MW Post Advisory Group	196,792,860		198,324,651		1,531,790	
Seix Investment Advisors	303,037,874		304,830,890		1,793,015	
<b>Total US Debt</b>	27,605,838,927	29.72%	27,680,479,934	31.43%	74,641,006	1.72%
<b>Real Estate</b>						
CB Richard Ellis	1,480,942,359		1,480,789,825		(152,534)	
Clarion Partners, LLC	410,982,345		411,390,230		407,885	
Heitman Capital Management	372,103,762		373,675,669		1,571,907	
Lend Lease	1,036,881,068		1,036,422,634		(458,433)	
Lowe Enterprises Inv Mgmt	152,067,749		152,324,077		256,328	
MIG Realty Advisors	333,556,624		333,397,484		(159,140)	
Principal Cap Inv (Debt Advisor)	1		12,600,001		12,600,000	
Sentinel Realty Advisors	40,265,456		40,269,436		3,980	
Special Situations	483,783,086		550,486,364		66,703,279	
SSR Realty Advisors	504,836,017		506,687,991		1,851,974	
Thomas Properties Group	248,520,416		248,902,849		382,433	
<b>Total Real Estate</b>	5,063,938,883	5.45%	5,146,946,562	5.84%	83,007,678	0.39%
<b>Private Equity</b>						
CalSTRS - Distributed Stock	2,448,090		1,919,075		(529,015)	
Limited Partnerships	4,372,369,906		4,325,504,563		(46,865,344)	
<b>Total Private Equity</b>	4,374,817,997	4.71%	4,327,423,637	4.91%	(47,394,359)	0.20%
<b>Grand Total</b>	<u>92,900,727,208</u>	100.00%	<u>88,068,122,600</u>	100.00%	<u>(4,832,604,608)</u>	

### PLEASE NOTE:

All Figures Include Accruals

The Information contained in this report is UNAUDITED

The Internally Managed Cash Collateral Portfolio is NOT included above.

The Net Asset Value as of 9/30/2002 is \$6,058,547,466

**California State Teachers' Retirement System**  
**Internal Russell 1000 ex-Tobacco Indexed Portfolio**

The California State Teachers' Retirement System's Internal Russell 1000 ex-Tobacco Indexed Portfolio (Portfolio) was \$11,352,345,064 as of September 30, 2002. The Portfolio seeks to closely track the return of the custom Russell 1000 ex-Tobacco Index.<sup>1</sup>

Table 1 below shows the returns of the Portfolio.

**Table 1: Performance as of September 30, 2002**

<b>Period</b>	<b>Portfolio Total Return</b>	<b>Index Total Return</b>	<b>Tracking Error</b>
2002, Jul-Sep	-16.808%	-16.980%	0.172%

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<sup>1</sup> Effective July 1, 2002, the benchmark for Portfolio is the custom Russell 1000 ex-Tobacco Index